



CAO ASSESSMENT REPORT

**Regarding the Second Complaint in Relation to
IFC's Investment in Karot Hydro (#36008) in Pakistan**

November 2020

Office of the Compliance Advisor Ombudsman
for
the International Finance Corporation and the
Multilateral Investment Guarantee Agency
www.cao-ombudsman.org

About CAO

The Office of the Compliance Advisor Ombudsman (CAO) is the independent accountability mechanism for the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), the private sector arms of the World Bank Group. CAO reports directly to the President of the World Bank Group, and its mandate is to assist in addressing complaints from people affected by IFC/MIGA-supported projects in a manner that is fair, objective, and constructive, and to enhance the social and environmental outcomes of those projects.

For more information, see www.cao-ombudsman.org

TABLE OF CONTENTS

TABLE OF CONTENTS III

LIST OF ACRONYMS IV

1. OVERVIEW 1

2. BACKGROUND 1

 2.1 The Project 1

 2.2 The Complaint 1

3. ASSESSMENT SUMMARY 2

 3.1 Methodology 2

 3.2 Summary of Views 2

4. NEXT STEPS 4

ANNEX A. CAO COMPLAINT HANDLING PROCESS 5

LIST OF ACRONYMS

CAO	Office of the Compliance Advisor Ombudsman (IFC/MIGA)
CSAIL	China Three Gorges South Asia Investment Limited
EOBI	Employees Old-Age Benefits Institution
GRM	Grievance Redressal Mechanism
IFC	International Finance Corporation (World Bank Group)
KPCL	Karot Power Company Limited
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
PESSI	Punjab Employees Social Security Institution
TBT	ToolBox Talks
WCMC	Workers' Council and Management Committee

1. OVERVIEW

In August 2019, a complaint was lodged with CAO by a former employee of the Karot hydro power project, in Pakistan. The complaint raises a range of social issues related to the lack of payment of wages and differential treatment of employees in relation to working and living conditions at the project site.

CAO found the complaint eligible for further assessment in November 2019. CAO was able to establish contact with the complainant in January 2020 through a secure text messaging platform. Between January and March 2020, CAO had multiple communications with the complainant via phone, video, and text messages. However, in early March 2020, the complainant became unresponsive and CAO could no longer establish contact despite several attempts made weekly via phone, text, and email. In May 2020, CAO decided to extend its assessment timeframe of 120 days to allow more time to re-establish communication with the complainant, especially in light of potential complications from the COVID-19 pandemic. During the nearly five months following its last contact with the complainant, CAO made more than ten attempts to call the complainant and sent over ten written messages, including offering alternative secure digital platforms to facilitate communication. CAO was ultimately unable to re-establish contact with the complainant and decided to conclude the assessment in July 2020. Since a CAO dispute resolution process requires voluntary agreement to participate by the complainant and the IFC client, and given that CAO could not establish the complainant's decision in this regard, the case will be referred to CAO's Compliance function for appraisal of IFC, as per CAO's Operational Guidelines.

2. BACKGROUND

2.1 The Project

IFC has an active project with Karot Power Company Limited (KPCL, or the Company), a special purpose vehicle incorporated in Pakistan and majority owned by China Three Gorges South Asia Investment Limited (CSAIL). The project involves providing a project finance facility of up to US\$100 million to support the construction, operation, and maintenance of a 720MW run-of-the-river hydropower plant being developed on the Jhelum River, in Pakistan.

2.2 The Complaint

In August 2019, CAO received a complaint from a former employee of the Karot project (the Complainant). The complaint raises concerns about lack of payment of exit wages, as well as discrimination against local workers in relation to access to drinking water, conditions of accommodations, and access to transportation at the project site. Irregularities about employment contracts and salary increases were also mentioned. The complaint included a request to CAO to keep the Complainant's identity confidential for fear of possible retaliation.

The issues raised during the assessment are described in more detail below.

3. ASSESSMENT SUMMARY

3.1 Methodology

The aim of the CAO assessment is to clarify the issues and concerns raised by the Complainant(s), gather information on the views of different stakeholders, and determine whether the Complainant(s) and the IFC Project Sponsor would like to pursue a dispute resolution process facilitated by CAO, or whether the complaint should be handled by CAO's Compliance function for appraisal of IFC's performance (see Annex A for CAO's complaint-handling process).

In this case, CAO's assessment of the complaint included:

- a desk review of project documentation;
- communications with the Complainant;
- telephone and email communications with KPCL's management; and
- telephone and email communications with relevant IFC staff.

Due to travel restrictions related to the COVID-19 pandemic, it was not possible for CAO's staff and consultants to arrange in-person meetings with the relevant stakeholders involved in this case.

3.2 Summary of Views

This section presents a broad overview of the issues and perspectives of the parties as expressed by the Complainant and KPCL's management, respectively. It does not comprise a judgement by CAO about the merits of the complaint.

Complainant's Perspective

The Complainant, a former employee of the Karot project, explained to CAO that upon termination of his employment relation with the Company, he did not receive the payment of wages he believes he was entitled to according to his contract.

The Complainant further raised concerns about the working and living conditions of Pakistani workers at the worksite, which are allegedly less favorable than the ones enjoyed by Chinese workers. Specifically, the complaint claimed that Pakistani workers are allocated accommodation facilities of substandard quality and have no access to transportation services at the worksite, as opposed to Chinese workers, who reportedly have access to Company vehicles. The Complainant also raised concerns about the safety of the drinking water available to Pakistani workers at the worksite, which appears to be supplied through a system connected to the pipeline for toilets.

The complaint to CAO also mentioned widespread concerns being raised by other Pakistani employees of the Karot project about their terms of employment, specifically in relation to workers being unfairly terminated, being employed without a contract, and not receiving adequate salaries for their qualifications.

The complaint included a request to CAO to keep the Complainant's identity confidential for fear of possible reprisals. The Complainant shared with CAO that several other employees of Karot complain about similar unfair treatments, but they prefer to remain anonymous for fear that they may lose their jobs if the Company found out about their complaints.

Company's Perspective

In their engagement with CAO in response to the complaint, KPCL claimed that significant improvements have been made with regard to the work environment and facilities at the Karot worksite and shared a detailed report with CAO about the current state of labor conditions for workers employed at the project. Specifically, in relation to the Complainant's claim regarding the quality of water provided for workers, the Company's report indicates that drinking water is being provided at easily accessible spots around the project site, including offices, living areas, and worksites. The Company further explains that water supply station pools are cleaned regularly, and the quality of drinking water is tested at least twice a month internally and once a month by an external third-party. The Company informed CAO that due to COVID-19 restrictions in Pakistan, the water testing was temporarily suspended but resumed again in September 2020.

As for the issues related to the conditions of the accommodation facilities provided to Pakistani workers, the Company recognizes that there are understandable concerns regarding one of the workers' accommodation facilities and explained that in order to address such concerns, the Company is planning to build additional rooms and to hire more workers from local areas. The Company informed CAO that at the Azad Pattan site, 29 new rooms were constructed in 2019 and 120 rooms are under construction with anticipated completion in October 2020. For the main Karot site, the Company reports that 14 new rooms were constructed in 2020 at Section 3, and 146 new rooms are under construction at Section 1, with anticipated completion in November 2020. Aside from the problems with one particular facility, the Company believes that the provision of accommodation to workers at the project site is on the whole adequate and well organized. The Company reported that certain improvements have been made in all the workers' accommodation facilities by providing one electric fan for every two workers, installation of new geysers in washrooms for provision of hot water and installation of one LCD TV at each canteen. The Company also informed CAO that they are providing payment of Rs. 3,000/- per month for food charges and free laundry service to all workers working at Karot Project and that they have also installed automatic washing machines in sufficient numbers in workers' accommodation facilities. Furthermore, the Company states that they constructed additional rooms, new toilets, and washrooms in workers' accommodations at the main construction site and Azad Pattan construction site, including a new canteen for the workers.

With regards to transportation services for workers, the Company explained that transportation is currently offered to about 2,200 workers, which include both Chinese and Pakistani workers, and that efforts are being made to increase the number of available vehicles.

In response to the concerns raised by the Complainant about workers being employed by Karot without contracts, the Company's report indicates that a uniform certified "Employment Contract", which was approved by IFC, has been issued to all workers working at the Karot Project site. With regards to salary increases, the Company argues that the provision of yearly increments is tied to the achievement of specific objectives and targets that have been predetermined and communicated to the employees. The Company states that this is not a legally mandated requirement and it is solely the employer's discretion to award salary increments based on performance of employees. The Company also informed CAO that they have arranged for workers to be registered with the Employees Old-Age Benefits Institution (EOBI) and Punjab Employees Social Security Institution (PESSI). This is an ongoing process and most workers have been registered, while the remainder are in the process of registration. However, the Company mentioned that the registration process is currently suspended due to COVID-19 and will resume as soon as possible.

The Company explained that the issuance of salary slips to all Karot Project workers is ensured by the relevant human resources department and the payment of minimum wages and overtime follows Pakistani labor laws. The Company also explained that at the time of

separation of workers, all pending payments are paid through full and final settlement including a service gratuity, which is calculated according to national labor laws.

The Company's report further describes efforts being made to ensure the workers' welfare and good labor conditions at the project site, including through the adoption of a worker's Grievance Redressal Mechanism (GRM), with complaint boxes located in all labor camps and following a complaint lodging procedure. The Company informed CAO that the GRM procedure is shared with all workers through daily Toolbox Talks (TBT). The Grievance Redressal Committees formed under the GRM, meet regularly on a monthly basis and handled 81 complaints in 2019. One grievance was still pending at the time of the report. However, the Company informed CAO that this issue has been resolved and the PESSI cards issued to the 15 workers involved. Moreover, the Company has reported that they have also established the Workers' Council and Management Committee (WCMC) in accordance with Pakistani labor laws. According to the Company, the WCMC meets regularly, provides a bridge between the management and employees for smooth resolution of conflicts, and engages the workers in their routine activities without any disturbance.

The Company informed CAO that they are committed to provide a healthy and safe environment to every worker and are making every effort to resolve any issues in the best interest of the Karot workers. In this regard, the Company states that they established a first aid station at the main camp and also provided one dispensary at Karot camp 2 for workers. Moreover, the Company reports their contractor is in the process of preparing of a Demobilization Plan and creating awareness among the workers regarding retrenchment after completion of their work, as per IFC guidelines.

4. NEXT STEPS

During the assessment, CAO lost contact with the Complainant and was unable to re-establish communication and advance the assessment process. Since a CAO dispute resolution process requires voluntary agreement to participate by the complainant(s) and the IFC client, the case will be transferred to CAO's Compliance function for appraisal of IFC's environmental and social performance. This does not preclude the option for the Complainant to reinstate contact with CAO in the future.

ANNEX A. CAO COMPLAINT HANDLING PROCESS

Once CAO declares a complaint eligible, an initial assessment is carried out by CAO Dispute Resolution specialists. The purpose of CAO's assessment is to: (1) clarify the issues and concerns raised by the complainant(s); (2) gather information on how other stakeholders see the situation; and (3) help stakeholders understand the recourse options available to them and determine whether they would like to pursue a collaborative solution through CAO's Dispute Resolution function, or whether the case should be reviewed by CAO's Compliance function.

As per CAO's Operational Guidelines,¹ the following steps are typically followed in response to a complaint that is received:

- Step 1: **Acknowledgement** of receipt of the complaint.
- Step 2: **Eligibility**: Determination of the complaint's eligibility for assessment under the mandate of CAO (no more than 15 working days).
- Step 3: **CAO assessment**: Assessing the issues and providing support to stakeholders in understanding and determining whether they would like to pursue a consensual solution through a collaborative process convened by CAO's Dispute Resolution function, or whether the case should be handled by CAO's Compliance function to review IFC's/MIGA's environmental and social due diligence. The assessment time can take up to a maximum of 120 working days.
- Step 4: **Facilitating settlement**: If the parties choose to pursue a collaborative process, CAO's Dispute Resolution function is initiated. The dispute resolution process is typically based on or initiated by a Memorandum of Understanding and/or mutually agreed-upon ground rules between the parties. It may involve facilitation/mediation, joint fact finding, or other agreed resolution approaches leading to a settlement agreement or other mutually agreed and appropriate goals. The major objective of these types of problem-solving approaches will be to address the issues raised in the complaint, and any other significant issues relevant to the complaint that were identified during the assessment or the dispute resolution process, in a way that is acceptable to the parties affected.²

OR

Compliance Appraisal/Investigation: If the parties opt for a Compliance process, CAO's Compliance function will initiate an appraisal of IFC's/MIGA's environmental and social due diligence of the project in question to determine whether a compliance investigation of IFC's/MIGA's performance related to the project is merited. The appraisal time can take up to a maximum of 45 working days. If an investigation is found to be merited, CAO Compliance will conduct an in-depth investigation into IFC's/MIGA's performance. An investigation report with any identified non-compliances will be made public, along with IFC's/MIGA's response.

Step 5: **Monitoring and Follow-up**

Step 6: **Conclusion/Case Closure**

¹ For more details on the role and work of CAO, please refer to the full Operational Guidelines: http://www.cao-ombudsman.org/documents/CAOOperationalGuidelines_2013.pdf

² Where stakeholders are unable to resolve the issues through a collaborative process within an agreed time frame, CAO Dispute Resolution will first seek to assist the stakeholders in breaking through impasse(s). If this is not possible, the Dispute Resolution team will inform the stakeholders, including IFC/MIGA staff, the President and Board of the World Bank Group, and the public, that CAO Dispute Resolution has closed the complaint and transferred it to CAO Compliance for appraisal.